

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 860 - Biotechnology Tax Credit (LSB 1741 YC)

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Fiscal Note Version - New

Description

House File 860 allows a biotechnology or targeted industry business that has 20 or fewer employees, and has a net operating loss carryover in a single tax year, to transfer or sell up to \$150,000 per business per year in unused tax credits in exchange for private financial assistance. The aggregate amount of tax credits that may be sold or transferred in a single fiscal year is capped at \$1.5 million.

Assumptions

1. From FY 2003 through FY 2005 to date, the Department of Economic Development has awarded at least 14.0% of the total tax credits available through the Enterprise Zone Program, the New Jobs and Income Program, and New Capital Investment Program to all biotechnology or targeted industry businesses regardless of their size or earnings. This would amount to approximately \$927,000 in tax credits awarded each month in FY 2006.
2. Approximately 75.0% of tax incentive awards are made up of non-refundable investment (income) tax credits. Therefore, in FY 2006, \$695,000 in investment tax credits will be awarded each month to all biotechnology or targeted industry businesses (\$927,000 x 0.75). Annualized, this equates to \$8.3 million for the fiscal year.
3. Approximately 50.0% of the tax credits awarded each year are not utilized. Therefore, approximately \$4.2 million in tax credits awarded in FY 2006 to all biotechnology or targeted industry businesses would remain unused.
4. Although the percentage of tax credits awarded to, and used by biotechnology or targeted industry businesses with 20 or fewer employees, and that have an operating loss carryover in a single tax year, is unknown, the Department of Economic Development anticipates that the \$1.5 million cap will be reached each fiscal year with 100.0% utilization of the tax credits awarded to these businesses.
5. Only projects beginning on or after July 1, 2005, will be eligible to take advantage of the provisions of House File 860. Tax credits awarded will be first utilized the year after they are awarded.
6. The Department of Economic Development will incur annual administrative costs of approximately \$48,000 (including benefits) and 1.0 FTE position for an Administrative Assistant III.

Fiscal Impact

House File 860 will reduce General Fund revenues by approximately \$1.5 million annually starting in FY 2007.

In addition, House File 860 would result in a General Fund cost of \$48,000 and 1.0 FTE position.

Sources

Department of Economic Development

/s/ Holly M. Lyons

April 18, 2005

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
